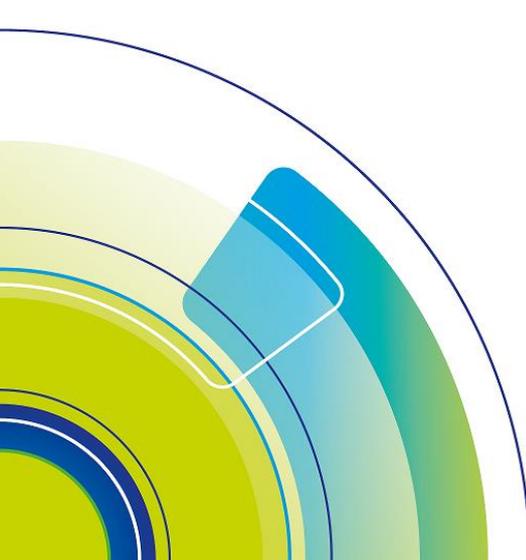




MWG Update- BUY

November 18th, 2019



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Company Update

Recommendation

BUY

HSX: MWG

Retail

Target price (VND)

147,131

Current price (VND)

118,500

Expected share price return

24.1%

Expected dividend yield

1.3%

Expected total return

25.4%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	38.9	-5.6	-1.3	50.2
Relative	23.7	-7.5	-5.1	35.4

Source: Bloomberg



Ownership

Retail World Ltd Co.	13.2%
Tri Tam Ltd Co.	9.9%
PYN Elite	4.4%
NTASIAN Discovery Master	3.7%

Stock Statistics

15-Nov-19

Bloomberg code

MWG VN

52-week range (VND)

80,600 -
129,500

Shares O/S (m)

443

Mkt cap (VND bn)

52,592

Mkt cap (USD m)

2,261

Foreign room left (%)

0.0

Est. free float (%)

89.6

3m avg daily vol (shrs)

766,284

VND/USD

23,265

Index: VNIndex / HNX

1011.33/105.89

MOBILE WORLD INVESTMENT CORP (MWG VN)

We maintain our **BUY** recommendation on MWG given on-track performance of the company's retail chains and that positive growth is expected to extend next year.

MWG's 9M2019 business results reported 17% YoY growth in net revenue, to VND76,763bn, and 36% YoY growth in EAT, to VND2,976bn, completing 75% and 77% of our full-year projections, respectively. The SG&A expenses to revenue ratio was 13.4% in 9M2019, compared with 13.1% in 9M2018, while accumulated gross profit margin expanded to 18.4% from 17.6% in 9M2018. Of which, 3Q2019 gross profit margin hit a record high at 19.7% (3Q2018: 17.7%), mainly attributed to positive contribution of white goods, appliances, kitchen wares, food & FMCGs. The addition of small appliances & kitchen wares - which have low price per item but offer high profit margins, especially private-label items - has been one of reasons for the divergence between the top and bottom line growth since the beginning of the year.

Thegioididong.com (TGDD) reported a top line of ~VND25,562bn (-3.9% YoY; the switch from mobile phone stores to consumer electronics stores continues), whereas **DienmayXanh.com (DMX)** posted net revenue growth of 22.3% YoY to ~VND44,062bn. Mobile phone products posted 4% growth despite the downtrend in the overall market (-4.5% YoY in 9M2019, according to GFK). White goods and small appliances surged by 35% and were the main driver for DMX's revenue growth.

As a part of MWG's strategies to "sell new/unprecedented products" and "serve unprecedented customers", in August 2019, MWG inaugurated a new mobile phone retailing model which specializes in lower cost products, named **dienthoaiSIEURE.com (DTSR)**, located in crowded districts in HCMC. The products' selling prices are set cheaper than those in TGDD chain, thanks to cutting such costs as air-conditioner, warranty (which means customers will be in charge of warranty by themselves), no exchange/return policy, etc., though products are guaranteed 100% genuine. In the trial phase, DTSR only trades mobile phones whose prices are under VND8m and has not yet opened for online sales. Second hand phones are also traded. The shops are operated with a floor area of 15-20 m² by one staff taking care of everything.

	2017	2018	2019F	2020F	2021F
Net Sales (VNDbn)	66,340	86,516	102,490	121,819	144,498
Growth	48.7%	30.4%	18.5%	18.9%	18.6%
EBITDA (VNDbn)	3,683	5,351	6,793	8,296	9,893
EBITDA margin	5.6%	6.2%	6.6%	6.8%	6.8%
Net Profit (VNDbn)	2,206	2,879	3,863	4,617	5,531
Growth	39.8%	30.5%	34.2%	19.5%	19.8%
EPS (bonus-adjusted, VND)	5,367	6,672	8,464	9,812	11,402
Growth	39.6%	24.3%	26.9%	15.9%	16.2%
ROE	45.3%	38.7%	36.3%	32.2%	29.6%
ROA	11.7%	11.3%	13.2%	14.2%	15.3%
ROIC	27.9%	29.4%	30.6%	29.8%	28.6%
Net debt/EBITDA (times)	0.9	0.6	0.3	0.2	0.1
EV/EBITDA (times)	15.6	10.7	8.4	6.9	5.8
EV/Sales (times)	0.9	0.7	0.6	0.5	0.4
PER (times)	22.1	17.8	14.0	12.1	10.4
PBR (times)	6.2	5.7	4.4	3.4	2.7
DPS (VND)	1,500	1,500	1,500	1,500	2,000
Dividend yield	1.3%	1.3%	1.3%	1.3%	1.7%

Through this new model, MWG aims to gain more market share from the existing mom-and-pop shops, which currently holds around 35% of Vietnam's mobile phone retail market, according to our estimate. After two months of operating, the chain delivered an average sales per store of VND500m+/month, encouraging MWG to keep testing this model in provinces in the coming time. As of September 2019, MWG opened 115 TGDD and DMX new stores in the aggregate and 11 DTSR stores, bringing the number of mobile phone and consumer electronics stores to 1,928 (including 1,010 TGDD, 907 DMX and 11 DTSR). The company targets to reach around 1,000 DMX stores at the end of 2019 and may not enlarge this number substantially next year to consolidate revenue per store. As the mobile phone segment's growth tends to level out, we expect the growth outlook of these chains should be underpinned by consumer electronics segment combined with a more encouraging contribution of new product lines added under the shop-in-shop model.

At the end of September 2019, MWG had 134 stores selling **watches** (in HCMC, Southeast and Mekong Delta regions), with over 150 thousand watches of different kinds sold at TGDD and DMX stores in seven months from March to September. In March and June 2019, MWG started distributing watches and sunglasses from different brands in TGDD & DMX stores (mostly TGDD). MWG targets 250 shops selling watches in 2019 and 500 shops in 2020. We forecast revenue from watches may contribute VND555bn to the company's overall revenue in 2019 and surge by 48% YoY in 2020. The expansion of sunglasses has not made remarkable progress so far, with 6 stores in HCMC and provinces. Prescription glasses sales are currently being tested.

Additionally, in order to further exploit the laptop retail market and serve diversified customer demands, MWG recently opened 26 new laptop centers, located in big cities/provinces and close to schools. A laptop center not only acts as a showroom to display about 200 SKUs but also a distribution center for online retail.

BHX chain generated VND7,139bn (+155% YoY) of net sales, adding 9.3% to the overall result in 9M2019. The weaker revenue per store in the recent months was primarily explained by the company's drastic efforts to lessen the wastage and shrinkage rates, which brought about adverse impacts on goods supply for stores. Still, adjustments have been made to ensure enough goods for stores in tandem with holding the wastage and shrinkage rates at an acceptable level.

Out of 788 stores as of September 2019, BHX opened 380 stores in 17 Southern and South-Central Coast provinces outside of HCMC (making up 48% of the chain's total store-count). The expansion is ongoing with new locations secured in Ninh Thuan, Khanh Hoa, and Phu Yen. Nevertheless, about two-thirds of new stores opened next year are still set for HCMC, Southeast and Mekong Delta regions. Further steps to the Northern region may take place after 2021. By format, BHX had 137 large stores of ~300 sqm, accounting for 17% of BHX's total stores. Fresh food and frozen food together captured about 50% of BHX's sales. From May 2019, BHX has experimented the double-shop model (the first one is located in Tay Ninh province) by expanding shop space and adding kitchen wares/some basic small appliances into the grocery shops. According to the latest update as of October 2019, there are 60 double shops in operation.

Continued efforts in optimizing procurement, direct sourcing/importing from plantations and manufacturers has propelled BHX's gross margin (after wastage and shrinkage) to approximately 20% in late September. BHX has achieved the EBITDA

break-even at the store level with a gross margin of 18% since December 2018. However, the target that BHX's gross profit can entirely cover the operating expenses of all stores and distribution centers, not including the G&A expenses at the company level, may take longer to achieve, instead of December 2019 as planned earlier. This is because the new distribution centers added for South-Central Coast provinces need some time to optimize their capacities thanks to the store network expansion. Our projection for BHX's 2019 gross margin (after wastage and shrinkage) is 19%+ and EAT margin may be negative 4.1% (from an estimate of negative 7.5% in 2018) on a whole-year basis for 2019.

For 2019, we project BHX's number of store at 965 and top line at VND10,799bn (+152.8% YoY), enlarging BHX's contribution to MWG's overall net revenue to 10.5% for the whole year. For 2020, the number of stores is assumed at 1,665 and BHX's contribution to the overall net revenue may achieve nearly 16%.

In sum, while BHX is expanding robustly, TGDD and DMX will remain the company's largest earners. Our net revenue and EAT projections for MWG are VND102,490bn (+18.5% YoY) and VND3,865bn (+33.8% YoY), respectively, in 2019. The growth rates are expected at 18.9% and 19.5%, respectively, in 2020. Combining DCF and EV/EBITDA comparison methods, we value the stock at VND147,131/share, equivalent to a total return of 25.4% at the end of next year. **BUY.**

MWG FINANCIALS MODEL	Price (VND):	118,500	Target (VND):	147,131	Mkt cap (VND bn):	52,592
(VND bn except where stated)	2016	2017	2018	2019F	2020F	2021F
Total Net Sales	44,613	66,340	86,516	102,490	121,819	144,498
<i>Sales growth</i>	<i>76.7%</i>	<i>48.7%</i>	<i>30.4%</i>	<i>18.5%</i>	<i>18.9%</i>	<i>18.6%</i>
TGDD	30,655	34,708	34,607	33,133	32,569	32,460
DMX	13,709	30,245	47,584	58,558	69,849	82,476
BHX	249	1,387	4,272	10,799	19,401	29,562
CoGS ex-dep'n	37,013	54,508	70,001	82,242	97,266	115,012
Selling expenses	4,288	7,017	9,660	11,658	14,101	17,015
G&A expenses	935	1,345	1,762	2,087	2,480	2,942
Financial revenues	134	215	257	291	325	365
Financial expenses	0	1	0	0	0	0
EBITDA	2,511	3,683	5,351	6,793	8,296	9,893
<i>EBITDA margin</i>	<i>5.6%</i>	<i>5.6%</i>	<i>6.2%</i>	<i>6.6%</i>	<i>6.8%</i>	<i>6.8%</i>
Depreciation	387	690	1,223	1,425	1,869	2,280
Operating profit	2,125	2,993	4,128	5,367	6,427	7,613
<i>Operating profit margin</i>	<i>4.8%</i>	<i>4.5%</i>	<i>4.8%</i>	<i>5.2%</i>	<i>5.3%</i>	<i>5.3%</i>
Other profits/losses	(1)	14	12	12	-	-
Profits/Losses from associates	-	-	(2)	(2)	(2)	(2)
Net interest expense	118	198	352	311	370	357
<i>as % of avg net debt</i>	<i>4.3%</i>	<i>5.5%</i>	<i>10.6%</i>	<i>11.1%</i>	<i>16.9%</i>	<i>21.5%</i>
<i>Interest cover (x)</i>	<i>18.0</i>	<i>15.1</i>	<i>11.7</i>	<i>17.3</i>	<i>17.4</i>	<i>21.3</i>
Tax	428	602	906	1,202	1,436	1,720
<i>Effective tax rate</i>	<i>21.3%</i>	<i>21.5%</i>	<i>24.0%</i>	<i>23.8%</i>	<i>23.7%</i>	<i>23.7%</i>
Minority interest	1	1	2	2	3	3
Attributable net profit	1,577	2,206	2,879	3,863	4,617	5,531
Cash earnings	1,964	2,895	4,102	5,288	6,485	7,810
Total number of shares	153,951,000	316,990,000	443,496,178	456,801,063	470,505,095	484,620,248
EPS (VND) (after treasury shares)	10,249	7,155	6,672	8,464	9,812	11,402
Bonus factor (x)	0.38	0.75	1.00	1.00	1.00	1.00
Adjusted EPS (VND)	3,846	5,367	6,672	8,464	9,812	11,402
<i>EPS growth</i>	<i>40.9%</i>	<i>39.6%</i>	<i>24.3%</i>	<i>26.9%</i>	<i>15.9%</i>	<i>16.2%</i>

KEY CASHFLOW AND BS ITEMS	2016	2017	2018	2019F	2020F	2021F
Increase in working capital	1,718	148	2,190	1,218	3,228	3,815
Capex	1,278	2,065	1,495	2,167	2,013	2,040
Change in investment in affiliates	0	0	60	-2	-1	0
Other cashflow items	-831	-143	-426	-467	-345	-413
Free cash flow	-1,862	539	-69	1,438	901	1,543
Share issues	0	92	703	137	141	145
Dividends paid	220	232	486	685	706	969
Increase in net debt	2,083	-400	-148	-890	-336	-719
Net debt, end of year	3,792	3,393	3,244	2,354	2,018	1,299
Shareholders' equity	3,839	5,906	8,977	12,292	16,344	21,050
BVPS (VND)	24,945	19,157	20,806	26,932	34,736	43,339
<i>Net debt / equity</i>	98.8%	57.4%	36.1%	19.1%	12.3%	6.2%
<i>Net debt / EBITDA (x)</i>	1.5	0.9	0.6	0.3	0.2	0.1
Total assets	14,854	22,823	28,123	30,547	34,263	38,251

KEY RETURN AND VALUATION RATIOS	2016	2017	2018	2019F	2020F	2021F
<i>ROE</i>	49.9%	45.3%	38.7%	36.3%	32.2%	29.6%
<i>ROA</i>	14.3%	11.7%	11.3%	13.2%	14.2%	15.3%
<i>ROIC</i>	28.3%	27.9%	29.4%	30.6%	29.8%	28.6%
<i>WACC</i>	9.2%	11.1%	12.4%	10.6%	11.2%	11.3%
<i>EVA</i>	19.0%	16.8%	17.0%	20.0%	18.6%	17.3%
<i>PER (x)</i>	30.8	22.1	17.8	14.0	12.1	10.4
<i>EV/EBITDA (x)</i>	22.8	15.6	10.7	8.4	6.9	5.8
<i>EV/FCF (x)</i>	-30.8	106.4	-832.5	39.9	63.7	37.2
<i>PBR (x)</i>	4.8	6.2	5.7	4.4	3.4	2.7
<i>PSR (x)</i>	1.2	0.8	0.6	0.5	0.4	0.4
<i>EV/sales (x)</i>	1.3	0.9	0.7	0.6	0.5	0.4
<i>PEG (x, 3 yr prospective)</i>	0.9	0.7	0.8	0.7	0.8	0.8
<i>Dividend yield</i>	1.3%	1.3%	1.3%	1.3%	1.3%	1.7%

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DISCLAIMER

Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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